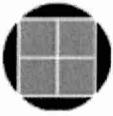


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15th International Workshop on Global Security - Vienna, 19-23 June 1998

Military and Industrial Cooperation in a Transformed, NATO-Wide Competitive Market

The Honorable Jacques S. Gansler
Under Secretary of Defense for Acquisition and Technology of
the United States

We meet at this Workshop, on the eve of NATO's 50th anniversary, to determine how our Alliance will meet its mutual security obligations in an increasingly dangerous and unpredictable world. As we discuss the future of our expanding and evolving partnership, we must also consider the reality of our defense resources and precisely how the new reality will affect our commitment to future defense cooperation. We must determine what *changes*—not only in our force structures, but also in our weapons and our procurement postures and defense industry structures—are required to meet the *likely threats* of the early 21st century. We must also determine how we can produce *affordable* systems to meet our strategic objectives and how we can achieve the *synergism* required for a collective security arrangement such as NATO to succeed.

I would therefore like to outline what I see as the Alliance's future major acquisition and technology challenges and to provide some perspective on where I believe we are headed in the early 21st century.

THE NEW DEFENSE SCENARIO

Today, we find ourselves in a world that is far removed from the Cold War era, when our defense strategy was based on a relatively predictable high-attrition, extended-duration Central European scenario—one backed up by the threat of massive retaliation to any nuclear-armed ballistic missile attack. *Early 21st century warfare will be dramatically different.* The new environment calls for a radical change in the way we plan to fight. In the future, we will most likely be involved in more limited—but almost always, coalition—engagements. Such engagements will be fought with smaller, lighter, more mobile forces and equipment; with concentrated firepower precisely delivered from long range. Wars of attrition will be replaced by so-called reconnaissance/strike engagements. Information-based systems will enable continuous, all-weather

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engagement information-based systems and sensors combined, an increased awareness of battlefield situations, and precision strikes will direct massed *weapons* instead of massed *forces* against enemy targets.

On the defense side, we will need to be able to counter the enemy's likely use of multiple delivery systems to direct not only conventional warheads but also chemical, biological, and even nuclear weapons against our forces and against civilian populations in our homelands. These weapons and acts of terrorism—which may be combined with widespread use of information warfare against both our forces and our domestic infrastructure—will become significant threats to our collective security in the early 21st century. While we would prefer a future that looks more like the past, and which therefore would require only minor adjustments in our overall security posture, this will not be the case.

Already, we face a world in which individual terrorists, transnational actors, and rogue nations can unleash firepower in ways as terrifying as that of a major global power. These terrorists are not disorganized bands of political zealots armed with pistols and hand grenades. Rather, they are well-organized forces armed with sophisticated, deadly weapons (often purchased on the world arms market), with access to advanced information and technology (often available commercially) and the skills to utilize them (or the ability to purchase the skills). They have few moral inhibitions about such weapons' use.

These hostile forces are unlikely to attempt to match our overwhelming superiority on a plane-for-plane, ship-for-ship, or tank-for-tank basis. Rather, they are more likely to use asymmetric strategies against us—weapons of mass destruction, “information warfare,” urban warfare, and large numbers of low-cost cruise and ballistic missiles. They will use commercial navigation, communication, and imagery satellites; buy advanced weapons technology and skilled labor on the worldwide market; and project their destructive power anywhere and anytime—including at our citizens at home.

THE NEED FOR A WAR-FIGHTING “REVOLUTION”

To combat such threats, we must achieve and maintain total information superiority—not just on the battlefield, but before and wherever there is the potential for danger. One clear requirement is to incorporate *advanced information systems* into every weapon system we acquire. Information superiority is critical to our survival in an increasingly dangerous world.

Thus, the likely scenarios of future combat require nothing less than a revolution in our war-fighting capability: a revolution, in many ways, as fundamental and as sweeping as the introduction of gunpowder to the battlefield. Its basis is *information dominance* and *precision firepower*. Our Joint Chiefs of Staff made this clear in “Joint Vision 2010,” their 1997 statement on projected global defense requirements. This blueprint for coalition warfare has profound implications for the future of our mutual defense efforts as well as for our overall armaments requirements.

To combat the new threats our nations will face in the early 21st century, a

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fundamental strategic and tactical restructuring—a “revolution in military affairs”—is now underway. But for this revolution to succeed, we must also dramatically restructure our way of doing business. Secretary Cohen has termed this a “revolution in business affairs.” It necessitates a much more responsive research, development, production, and support process—one that adapts advanced technologies (both product and process) and modern management innovations (often originating in the commercial sector) to formerly defense-unique—and frequently costly and non-responsive—acquisition and support processes.

There are a number of acquisition priorities that will be required to support the revolution in military affairs in the coming years. These are to:

1. Modernize our *current* weapons systems. Since they comprise the majority of systems we will have to depend on for the next two decades, we must update them to take advantage of the potential offered by the “digital battlefield.”
2. Develop and deploy major *new* systems and subsystems required for 21st century operations.
3. *Support* all of these systems far more efficiently and effectively.

The challenge is to do all three at *low cost* and within *drastically reduced cycle times*.

To meet the unpredictable, but increasingly likely, threats to our Alliance, we must have both *modernized* and *new* weapon systems and equipment *on hand* to conduct multiple, concurrent contingency operations in a much broader geographic area—NATO’s new area of interest and influence. We must also be able to provide our war fighters with the full protection of superior weapons and total information superiority in any environment—but at much lower costs and reduced cycle times. This is an urgent need; yet many in the Alliance appear not to sense the urgency.

SETTING A NEW COURSE

The dramatic—and often troubling—changes taking place in our world clearly require the Alliance to set a new course—as to how we structure our forces, how we plan to fight, equipment we need to meet the new threats, and how we will transform our defense industrial base to support us in this effort. We must also change the focus of our partnership in order to bring about a new and even stronger era of security cooperation—including far greater equipment interoperability for integrated operations in coalition conflicts.

One way we are doing this is by working closely with our NATO Allies to insure that existing and future air and missile defense systems are complementary and can share information and communicate with each other. While developing a single, integrated air picture and joint operational defense

capability for our coalition operations of the future, I am confident that we are up to it. But there is still far too much autonomy in the systems we produce. We still want to design every weapon as a stand-alone entity, and this of course increases costs. Far worse, it increases confusion on the battlefield and greatly reduces war-fighting effectiveness. Thus, we must develop and deploy systems built from the ground up with the ability to communicate and fight side by side in a joint battlefield environment. Promoting joint system development and achieving interoperability with our allies are critical requirements for likely coalition warfare scenarios in the early 21st century. We may speak a dozen different languages, but we must communicate with one voice in battle.

Further, we must work to remove barriers that prevent effective operation of competitive market forces. This will allow us to acquire equipment and systems that we need for future coalition warfare with an eye to price and performance, and not to protectionism. Cooperation in the geopolitical, military, and industrial arenas must be matched by efficiency and effectiveness in acquisition practices. Such a situation is being facilitated by the current efforts to remove inefficiencies within the North American and European defense industrial structures and—most important—to *improve transatlantic industrial ties*. These efforts will in turn create fair and open competition for the best possible goods and services while recognizing the political realities of providing countries a fair return on their investments.

COOPERATION AND CONSOLIDATION

Accepting the fact that all of us throughout the Alliance face declining defense budgets, we recognize the need to apply our limited resources more efficiently and more effectively. Such work will require a fundamental cultural change within the United States as well as coalition governments. But it is a change we must make. European defense equipment costs, according to one recent study, are rising at an average rate of 10 percent each year (excluding the effects of inflation). That means they double every seven years. With fixed or declining defense budgets and rapidly escalating costs, it is becoming more and more impractical for individual nations to consider independent major weapon system development and/or production as a realistic option. And, since coalition warfare is the most likely scenario for the future, based on compelling *geopolitical, as well as military* arguments, cooperation in the development and production of defense systems is the only viable option.

Coalition warfare, and interoperability of equipment and systems, have important implications for each nation's defense industry as well as for its military establishment. It would appear that, in the future, nations will rarely be able to afford a unique, independent industrial capability. In an era of finite resources and declining national defense budgets, greater cooperation represents a tremendous opportunity for creating greater efficiency, increased interoperability, and much less duplication—if, as I stated earlier, we can inspire the cultural change necessary to encourage cooperation and establish procurement practices that put the benefits of international market forces above autarchy.

In the United States, we have seen widespread defense industry consolidation during the past few years. Ten years ago, there were more than 50

independent defense firms as opposed to today's top five. This dramatic consolidation is the inevitable result of a dwindling defense procurement budget that has seen a 70% decrease during the past ten years and is only now turning around as we struggle to commit resources to modernization.

There are certainly similar opportunities for consolidation among our NATO partners, and some are already being taken advantage of. Consolidation will certainly increase European firms' competitiveness and capacity for independent action. We encourage caution on this road, however, because we are increasingly concerned about the potential for exclusivity (on both sides of the Atlantic), which could result in counterproductive transatlantic competition sometimes characterized as "Fortress America versus Fortress Europe."

We recognize, however, that with static or declining defense procurement budgets, consolidation can be beneficial. We also know that consolidation has its limits. While we believe that there are still opportunities for consolidation in our domestic defense industry—especially in the lower tiers—we are concerned that, in some instances, we may consolidate to the point where we no longer have an effective, *competitive* marketplace. This fear applies to both horizontal and vertical integration within a specific sector. But opening markets to *international* competitive teams can assure continued competition in the face of consolidation. We firmly believe that, without competition, there is less innovation, and little incentive for adopting the efficiencies that result in downward pressure on prices and cycle times.

We understand, of course, that many weapons programs will remain regional. On the other hand, cooperation must be the choice for those systems that require interoperability in coalition conflicts—for example, in areas such as air defense, communications, intelligence, chemical/biological defense, and information security. While our threat assessments may differ, we must implement programs efficiently and effectively where we do agree and where opportunities for cooperation do exist.

To achieve success, we must work toward cooperative international defense programs that apply the lessons learned from successful international commercial alliances. Essentially, *we must adopt a new international armaments cooperation model*, one in which *governments* establish the military requirements and business rules but *industries* choose the best international teams to bid competitively on the work. Such an arrangement will forge a more balanced partnership, one that guarantees each individual member's independence while recognizing the Alliance's interdependence. It will also take full advantage of the efficiencies and effectiveness of competitive market forces.

We can learn many valuable lessons from commercial industry structures that are operating in the increasingly global economy. Parochial institutions and practices have been swept aside as these world-class industries have taken on more international structure and market perspective. Many global strategic alliances are being formed and successfully implemented. Industrial consolidations and excess capacity reductions are now taking place, along with significant privatization of public sector industrial activities. There is also the potential for significant reduction in vertical integration, consistent with the concept of worldwide sourcing to the "best in class." Additionally there is

widespread integration of engineering and manufacturing to achieve high performance at lower cost and with greatly reduced cycle times.

INCREASING CIVILIAN/MILITARY INDUSTRIAL INTEGRATION

Perhaps most essential for the transformation of our defense acquisition practices and industrial structures is the need to bring about far *greater civilian/military industrial integration*. In the United States, we are building a greatly expanded partnership with a revived and prospering commercial industry through what we refer to as “acquisition reform.” In many respects, the advanced technology and production and support processes we need to meet our defense needs can be better satisfied by commercial capability. This is especially true in the information systems arena, where the best world-class companies are way ahead of us in many essential technologies. We must expand our supplier base to include these firms. At the same time, we must encourage our traditional suppliers to also address the commercial markets. Both of these actions require significant “cultural change” in government procurement practices and in industrial business practices. Today, we see a commercial industry that is becoming global in its reach and forming partnerships with other world-class companies to cut costs, increase efficiency, and provide better performance. This natural trend toward globalization must be accommodated by greater civil/military industrial integration on an international scale.

To produce lower-cost, higher-performance defense equipment, we must remove the existing significant barriers to expanded civil/military industrial integration. We must also move away from the old military/industrial axis of defense suppliers creating defense-unique products based exclusively on defense-produced technology. We must seek a new civil/military partnership, not one in which we become simply purchasers of commercial products and processes, but a dynamic and vigorous engagement that, through R&D, creates advanced products and systems with common technological bases. Through flexible manufacturing, this new partnership would allow us to produce low-volume, defense-unique items on the same lines with high-volume commercial items.

In the United States, civil/military defense industrial integration is one of our top acquisition priorities, an important part of an expanding acquisition-reform effort that has already saved billions of dollars. We are continuing and accelerating that effort. We are working to reduce infrastructure and support costs that are now more than 60 percent of our overall defense budget. And we have initiated a major effort to *reengineer our logistics system*, replacing excessive inventory and infrastructure with advanced information technology and rapid transportation. Our current logistics system—based on a 1950s model—does not provide the level of support, speed of delivery, and economy of operation required for the early 21st century. If we are to do the job right, and at lower costs, we must reduce our logistics support costs and trim inventory and maintenance costs. World-class commercial firms have shown the enormous changes that are possible—in support performance improvements and cost, personnel, and inventory reductions. We must pursue these opportunities aggressively. They will free up a large number of dollars and people that we can shift from support and infrastructure to combat and modernization.

modernization.

DEFENSE DEPARTMENT REFORM

In November 1997, Secretary Cohen announced sweeping reforms in the way the Defense Department will do business in the future. This effort, known as the Defense Reform Initiative, radically restructures—or eliminates—many functions within the Department in order to cut costs, improve performance, and, most important, allow us to concentrate on those core functions that are truly governmental: combat, policy, management, and oversight. All other functions we will send out for *competitive bids* and thus gain the performance and cost benefits of market forces.

The Defense Reform Initiative not only includes a 30 percent reduction in the Office of the Secretary of Defense, but also significant restructurings. Three of these, I believe, are critical to the future direction of our Alliance. First, we have initiated a major reorganization of the Department's command, control, communications, and intelligence functions—C3I. The reorganization, which recognizes the increased importance we place on current and future defense information, surveillance, and intelligence issues, gives the Assistant Secretary of Defense for C3I a significantly broader portfolio encompassing such critical areas as information assurance, infrastructure protection, and spectrum allocation efforts. It also closely links the Assistant Secretary to our weapons acquisition efforts to assure “sensor to shooter” real-time capability on the modern, widely dispersed battlefield.

The second restructuring effort, the new *Defense Threat Reduction Agency*, will improve our focus on the complex new challenges raised by the threat of weapons of mass destruction. This agency consolidates three existing agencies—the On-Site Inspection Agency, the Defense Special Weapons Agency, and the Defense Technology Security Administration—and will be responsible for managing activities pertaining to counterproliferation, the Cooperative Threat Reduction Program, and compliance with arms-control treaties. The new agency will provide expertise on weapons of mass destruction and assure that research activities are carried out relative to our efforts to reduce proliferation.

The third change, which is of particular importance to our allies, will meld two existing agencies, the Defense Security Assistance Agency and our International Armaments Cooperation Office, into a new agency, the *Defense Security Cooperation Agency*. This new agency will direct our international cooperative efforts, shifting our emphasis in armaments programs from security assistance to security cooperation.

As we make the many radical changes in our war-fighting capabilities, we intend to do it in a way that is compatible with, and provides benefits to, our overall collective security. As part of this effort, I recently asked our Defense Science Board to create a year-long task force to consider the potential impacts of the “revolution in military affairs” on coalition warfare. The study will evaluate such issues as how best to use the benefits of the “revolution” for our coalition's war-fighting capabilities; achieving the required levels of interoperability and technological advance within our Alliance partnerships;

exploring ways to foster and maintain mutual trust; and weighing the effect of the “revolution” on our collective tactics and training.

CONCLUDING REMARKS

Our NATO partnership is a key element in both our “revolution in military affairs” and our “revolution in business affairs.” Both of these dramatic changes are required in order to meet the changing military and budgetary environments. We are committed to achieving these changes in cooperation with our allies. But as our Alliance evolves to meet the new and uncertain threats of the early 21st century, we must all work together to harness our tremendous combat force superiority and war-fighting capacity. This work will enable us to create *affordable* and *rapidly deployable* defense systems that match our future security requirements and our limited resources. That combination of coalition capability and affordability is the challenge before us.

We are confident that the NATO Alliance will maintain its vast military superiority during the next 50 years. To do so, however, it must continue to adapt to the rapidly changing security and technology environments. This is not an easy task. It will not be achieved overnight. And there will be significant hurdles along the way. But if I have any concern, it is only that we—collectively—will not recognize the *urgency of beginning now* to make the needed changes.

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